

“Trends and developments in human resource management practice in Estonia in the institutional context”

AUTHORS	Tõnu Kaarelson Ruth Alas
ARTICLE INFO	Tõnu Kaarelson and Ruth Alas (2008). Trends and developments in human resource management practice in Estonia in the institutional context. <i>Problems and Perspectives in Management</i> , 6(1)
RELEASED ON	Friday, 18 April 2008
JOURNAL	"Problems and Perspectives in Management"
FOUNDER	LLC "Consulting Publishing Company "Business Perspectives"



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

© The author(s) 2026. This publication is an open access article.

Tõnu Kaarelson (Estonia), Ruth Alas (Estonia)

Trends and developments in human resource management practice in Estonia in the institutional context

Abstract

Human resource management has emerged as one of the most successfully developed functions in Estonian organisations in the 1990s and the current decade. The aim of this article is to present changes in the personnel function in Estonian organizations in the institutional context. The paper deals with the development of the personnel function in Estonia from the years immediately after World War II until today. Five periodized stages are used in order to give a better structure to this period of 60 years. Up until the middle of the 1980s, the personnel function in organizations was irrelevant and primarily had an ideological and administrative character.

The paper shows how the driving forces of a market economy have led human resource management practices in Estonia. Comprehensive and rapid development in the political and economic environment has resulted in radical changes in the management of organizations. The personnel management function has consistently adopted the traits of human resource management. In order to characterize the changes that have occurred in the last decade, the results of the Cranet international HRM survey have been used.

The role of HRM has increased noticeably in the last 3 years in connection with Estonia joining the European Union. Very rapid economic development and substantial changes on the labor market have meant that the HRM function is now faced with new challenges.

Keywords: personnel management, HRM, Estonia, personnel function, institutional environment.

JEL Classification: M.

Introduction

The aim of this article is to deal with developments in personnel management taking into account the changes in social, economic and political life in Estonia. During the present decade, certain signs in Estonian organizations have emerged affirming that the principles of human resource management are step by step becoming part of local management practices.

The idea that organizations are deeply embedded in wider institutional environments suggests, that organizational practices are often either direct reflections of, or responses to, rules and structures built into their larger environments. In the early 1980s, a group of US-based sociologists, including academics such as Selznick, Meyer, Rowan, Scott, DiMaggio, Powell and Zucker, presented themselves as new institutionalists and began to formalize this new approach (Paauwe and Boselie, 2003). Organization and management must be understood as parts of the institutional system, they do not exist or operate independently, but reflect, reveal and reinforce cultural rules and accounts about the nature of rational economic behavior in particular and social conduct in general. Organizing and managing are subject to the same process of institutional inertia and change as other formal structures and social practices, and abide by the same technical criteria, rationality, and normative criteria, legitimacy, as other elements of the system (Clark & Soulsby, 1999).

Depending on the institutional frame of a particular economy, a customized national business system evolves. Historically grown institutional traditions and systems of a society determine the nature of the firm, non-ownership mechanism of coordination, and work organization (Giardini et al., 2005). According to Claus (2003) there are three macro-components that influence HR development in Europe: the international institutional context of the EU, the national cultures, and the national structure of each country. She claims that the broader societal context in which professional HRM practices emerge should be taken into account.

The second half of the 1980s brought significant changes in the Soviet Union, resulting in an obvious weakening of Soviet institutions. The development of personnel management in Estonia was fostered by social changes that took place at the end of 1980s.

The changes in society and the development of new local legislation paved the way for private entrepreneurship and foreign investment. The obvious changes towards a market economy have deepened since 1991, when independence was re-established in Estonia. This was the beginning of the transition process from centralized planned economy to a market economy with democratic institutions. The restructuring process in the Estonian economy had begun and most of people had to change their attitudes and behavioral patterns.

The present article deals with how the broader social and economic framework had a great impact on the character of personnel function in organizations.

The different periods in the development of the personnel function influenced by institutional changes will also be considered.

1. The main periods in development of personnel/HR management

In order to fully understand the peculiarities of human resource management today, one should take a close look at the developments in this field since the Second World War in Estonia. To characterize the stages in its development, the authors rely on the periods proposed by Vanhala (1995). She identified five stages in Finnish personnel management: the initiation phase, the pioneering phase, the self-criticism phase, the strategic HRM phase and the decentralization phase. In the present article the authors have adapted the suggested periods to Estonian conditions.

In the period between 1945 and 1991 three stages have been identified in the development of the personnel function in Estonia.

1.1. The development of the personnel function in Estonia until 1991. In the Soviet period normal development processes in many fields, including human resource management, were disturbed. The country's economy was characterized by a centralized command economy and an influx of Russian labor.

Until the Second World War Estonia has already experienced democracy and a market economy and enjoyed living standards comparable to other Scandinavian nations before its unlawful incorporation into the Soviet Union in 1940 (Zamascikov, 1987, p. 226). Although wages, income, housing and productivity in the Baltic republics were higher than in the other European republics of the SU (Gregory, 1987, p. 369), the Soviet occupation resulted in a significant decline in the standards of living (Misiunas & Taagepera, 1983, p. 39).

Economic life of Estonia was subjected to the dictation of the central power in Moscow. The institutions established before the Second World War during the times of the Estonian Republic were brought down and establishment of Soviet institutions was in full swing. The Soviet regime was successful in eliminating private enterprise, introducing state-oriented socioeconomic institutions, and having the population become accustomed to them. The very skills needed for private enterprise disappeared. What did not disappear was a dim sense of having lost something valuable. This sense was anchored in a Protestant work ethic that was much more deeply rooted than Lutheranism itself and was felt to be part of the besieged national culture (Taagepera, 1993, p. 108).

Instead of personnel management, the companies of that time were widely characterized by simple staffing

which, on the one hand, had an administrative function and on the other hand served as a necessary means to achieve control over workers. By its nature, this was an **administrative-ideological** period, characteristic of the years between 1945 and 1960. The staff (cadre) departments existed in every organization. Besides administrative duties they were expected to perform certain ideological roles with employees (Tepp, 2007). The staffing function dealt solely with the issues of accounting and reporting, and the people responsible for this function were of the lowest qualification among other specialists and officials. Communist party membership was in most cases a precondition for a department manager's position.

The political "thaw" in the beginning of 1960s and a few economic reforms in the Soviet Union brought about changes also in the personnel function. By its nature the function remained administrative, but from the new economic needs, progress and innovation was also required within this function. Due to the fact that during the Soviet period the state was responsible for guaranteeing work for everyone, enterprises were internally overstaffed and passive, work places were over-secured (Liuhto, 1999, p. 16). Effective use of human resources was not the aim. The aim was to provide all people with jobs.

On a wider scale, the period could be characterized as an **initiation phase**, which lasted till the end of 1970s. The characteristic features included workers' training and the development of the system of complementary training. By the end of the initiation phase, complementary training for managers had also reached the agenda of personnel development. Taylorist methods – the improvement of work operations, setting working norms, implementing a piecework system, etc. – became widely used. In addition to the staffing function, companies embarked on the wide-scale social development of the enterprise – services for health care and leisure became common. Since the middle of 1970s, through the work of qualified industrial psychologists in the staff departments of some big enterprises – recent graduates of Tartu University – the first signs of a professional approach to personnel management emerged. There were some people both in academic and practical circles who had had closer contact with the ideas and practices in this field in neighbouring countries, for example Finland. The development ideas acquired from management consultants in Finland were already being implemented here and there at the end of 1970s.

The end of 1970s and beginning of 1980s brought about the **pioneering phase**. The 1980s were greatly influenced by political developments in the whole world and similarly in the Soviet Union, which resulted in radical changes in both the economic and

social life of the country. Estonia was at the forefront of reforms in the SU. Radical reforms in Estonia started in 1987-1988 when a group of theoreticians and practitioners discussed the idea of economic autonomy for Estonia. The movement for autonomy gathered force in 1988 and developed into mass political movements in support of the restoration of independent statehood in all the Baltics (Taagepera, 1993).

The end of 1980s is characterized by the beginning of entrepreneurship and the first rudiments of a market economy. While the economy was opening up, management and personnel management practices underwent changes. New methods of recruitment and selection were implemented, opportunities for complementary training and motivation of employees became more diverse.

1.2. The emergence of personnel management

With the restoration of independence and the appearance of a market economy, the previous phase of the HR function smoothly changed to become the phase of personnel management. Economic decentralization and privatization quickly led to economic restructuring and changes on the labour market.

The transition to a market economy was supported by the re-establishment of independence in August 1991, and a currency reform based on currency board principles (fixed by law to the German Mark) in June 1992.

During the transition, the resource-constrained and centrally planned economy had to become demand driven and market oriented. Outputs, which had formerly been mostly dependent on available resources, had to become demand-driven and controlled by consumption in foreign and domestic markets (Rajasalu, 1995, p. 8). One of the main aims of the transition to a market economy was the formation of a competitive business sector based on private property in order to replace the strong state regulation with a combination of a strong market and only absolutely necessary state regulation (Taaler, 1995, pp. 10-11). There was no room for slack resources in enterprises any more. The transformation away from central planning increased endogenous activity substantially, as the transition has both forced employees to be more active and at the same time created more favourable conditions for employee self-realisation (Liuhto, 1999, p. 16).

The process of economic reform was radical and quick. According to Taaler (1995, p. 12), the government reduced its influence on economic and social life too quickly, and as a result the rate of economic liberalization was faster than the emergence of market competition. This was accompanied by the shock of

loosing markets to the East. The beginning of the 1990s saw a serious decline in the Estonian economy, which was accompanied by a decline in real income and growing income inequality (Rajasalu 1995, p. 17). This increased uncertainty about the future.

Small-scale privatization began in Estonia in early 1991. In 1992, it was decided to implement the 'Treuhand' model for accelerating the process of large-scale privatization and a special body, the Estonian Privatization Enterprise, was established (Kein & Tali, 1995, p. 143).

Arguably one of the most successful transitions from a socialist economy to a market economy took place in Estonia (Leimann et al., 2003). This liberal market approach in Estonia has emphasized the removal of trade barriers, the development of free trade agreements, the introduction of favourable fiscal and monetary policies and the creation of macroeconomic stability.

1.2.1. New labor legislation. Several essential principles in labor legislation, such as a citizen's right to choose his or her field of activity, profession and workplace, are in accordance with the Constitution of Republic. According to the Constitution, working conditions are under state control and belonging to employee and employer associations and unions is free. Estonia has joined more than 30 ILO conventions, which means that their requirements are reflected in local labor legislation. The ILO conventions ratified in Estonia have had an influence, for example, on legislation and practice in the field of the social dialog, equality, labor safety, etc.

At the beginning of the 1990s, new labor legislation was adopted to govern relationships between employers and employees at the individual and collective levels under the new conditions of the market economy.

The majority of the essential acts of law regulating labor relations were worked out and adopted over a ten-year period (1991-2001). One of the most essential and voluminous acts of law in the labor law package is the Employment Contracts Act adopted in 1992. Over the years, the Act has been supplemented and amended several times, as with other acts of law.

Several aspects of the Employment Contracts Acts are dealt with more comprehensively in the Wages Act (1994), the Individual Labor Dispute Resolution Act (1995), the Occupational Health and Safety Act (1999), the Working and Rest Time Act (2001), the Vacation Act (2001) and others.

The Collective Agreements Act (1993), Employee Representatives Act (1993), Collective Labor Dispute Resolution Act (1993) and Trade Unions Act

(2000) deal with the employees' right of association, collective contractual relations and representation in their relations with employers.

The Health Insurance Act (1991), Social Protection of the Unemployed Act (2000), State Pension Insurance Act (2001), Unemployment Insurance Act (2001) and other related acts deal with social insurance issues.

In 2000, the government adopted the National Employment Action Plan following the European Employment Guidelines (Estonia). The priorities of the plan include the development of active labor market policies, support for micro-enterprises, reducing administrative burdens for business, developing vocational education more suited to business needs, integrating disadvantaged groups into the labor market and improving the administrative capacity of the public employment services. In addition, The Employment Service Act was passed to provide the legal framework for functioning employment services.

1.2.2. Employers. Changes in the legislative environment in the early 1990s encouraged the creation of new private enterprises by creating relatively simple conditions for establishing enterprises (Smallbone and Venesaar, 2003). The number of operating enterprises has increased year by year in Estonia. The most rapid changes took place at the beginning of 1990s. In 1994-1997, the number of enterprises grew slowly. In 2000, the number of operating enterprises reached 46 853 (Statistical Yearbook of Estonia, 2001). 84% of these were micro-enterprises with less than 10 employees.

Entrepreneurial organizations have grown in Estonia since the end of the 1980s. The Estonian Association of Small and Medium-Sized Businesses was established in 1988 for organizations employing less than 250 workers (Estonian Association of SME's, <http://www.evea.ee>).

The Estonian Chamber of Commerce and Industry (ECCI), which was originally founded in 1925, was re-established in 1989 in order to assist in creating a favorable business climate for the return to a market economy and to rekindle Estonia's traditional business relations with Europe and the rest of the world (Estonian Chamber of Commerce and Industry <http://www.koda.ee/>).

In 1992, Estonia rejoined the International Labor Organization (ILO). Becoming a member of this organization meant that Estonia was obliged to acknowledge international labor laws, including the primary obligation of having to solve the core issues of social guarantees between the government, employers and employees via consultations and negotiations.

The Estonian Employers' Confederation is a non-profit, independent umbrella organization with the objective of protecting the common interests of employers. It represents 32 branch organizations that employ 35% of private sector employees in Estonia (Estonian Employers' Confederation, <http://www.ettk.ee/en>).

1.2.3. Trade unions. The right to form and join a trade union or employee association exists on the basis of the Estonian Constitution. Unions may freely join federations and affiliates internationally. The right to strike is legal and retribution against strikers is prohibited. Unions are independent of the government and political parties.

Compared to the Soviet period, membership of trade unions has decreased dramatically. Union density rate is approximately 15% (Eamets & Masso, 2004). According to a survey conducted by the International Network of Strategic Human Resource Management, CRANET, carried out in 27 countries, Estonia ranked last among other European countries according to the number of people involved in trade unions: in two thirds of the Estonian companies studied there were no trade union members at all (Alas, 2004).

Trade unions had to face challenges that dramatically affected their activities and membership: radical reform created a liberal market economy system, where the shift from state-controlled enterprise to privately driven entrepreneurship was caused by the foundation of new private enterprises rather than by the privatization of state enterprises. Only 7% of all private enterprises were created directly as a result of privatization (Purju, 1998). In newly established enterprises, trade unions did not usually exist.

The central organizations of Estonian trade unions were established in the beginning of the 1990s. In order to enhance the legal environment for the social dialog, the Trade Unions Act has been adopted.

In spite of the modest role performed by labor unions in Estonian enterprises, it is still possible to speak about 15 years of experience in social dialog between labor unions, employers and the government. At the bipartite level, collective agreements have been concluded at branch level in the agro-food and road transport sectors. The direct collective bargaining coverage is around 29% (Eamets and Masso, 2004) that refers to very low level.

1.2.4. Developments in a personnel function. All these abovementioned factors accelerated the development of the personnel function. Compared with the staff administration during the Soviet period, the changes in the personnel management field were enormous. The disintegration and disappearance of existing organizations destroyed old staff departments,

former personnel employees were mostly discharged and new labor laws were worked out. The majority of typical role models in business were destroyed as well (Tepp, 2007).

Following a period of rapid development of entrepreneurship and privatization of public enterprises, Estonian companies emerged as relatively small. Due to this fact some companies did not create the position of personnel manager/specialist and the tasks of personnel/HR management are shared between the managing director and heads of other functions. In companies with less than approximately 50-60 employees, the tasks of the HR manager/specialist have been delegated to a person in another position (Alas, 1998).

Labor relations were characterized by weak trade unions, which had no influence whatsoever over the arrangement of labor relations. A large number of employees were made redundant in privatized companies.

The culture of personnel/HR management in this period has largely been influenced by the subsidiaries of large Western enterprises in Estonia. The practices of these companies have served as an example to a number of local enterprises while developing the function of human resources. Similarly, there has been rapid development of personnel managers and specialists. In Estonia, the first initiatives to interpret the new roles of HR and create an understanding of HR as a profession came from training and consultancy firms (Tepp, 2007). Besides continuous further training, professionalism has been developed by obtaining practical experience – in this foreign companies have played a great role. The services of companies providing further training in management came to the market faster and in a more flexible way than the faculties of economics at universities and business and management schools were able to offer.

At the beginning of the 1990s, three entrepreneurial psychologists established the HRM Association PARE and started to provide basic one-year courses in HRM. In the second half of the nineties, the situation improved and several universities and business schools started to offer diploma and degree programs in HRM. From 2001, Estonian Business School in co-operation with PARE started the Executive MBA program in HRM for HR managers in Estonian companies (Alas & Svetlik 2004).

The second half of the 1990s was rich in changes that took place in organizations. The changes were brought about both by Western capital that started to pour into Estonia and Estonian entrepreneurs who began to invest in neighboring countries. The reason why the role of personnel managers expanded, laid primarily in the fact that implementing organizational

changes required the preparation of employees. Some prerequisites for successful changes include communicating, informing, motivating and involving the employees. Considering their preparation and responsibilities, personnel managers in several large organizations were the most obvious people to handle the abovementioned tasks and to advise other managers. However, this was by far not the typical characteristic of personnel management in all organizations in Estonia. Such a function primarily existed in larger organizations that employed competent HR managers, also recognized by top executives.

However, in the middle of the 1990s, there were but a few organizations in Estonia that viewed personnel managers as strategic partners to senior managers. Similarly, there were not many companies with senior managers that would have accepted personnel/HR managers as business partners. It has to be noted that personnel/HR management was not one of the highest priorities among the many fields that required development (Alas, 2001).

One of the researches of the last decade arrives at the conclusion that personnel/HR managers, as a rule, do not act as strategic partners to senior managers and senior managers, in their turn, are not quite able to put their finger on those objectives where the expertise of personnel/HR managers could prove invaluable (Kalda, 2001).

1.3. From personnel management towards human resource management. The Estonian economy has advanced immensely since the beginning of 2000, when the member states of the European Union decided to offer Estonia the opportunity to join in the EU in 2004. The main economic indicators of this particular period have been given in Table 1.

The period since accession to the European Union has given rise to rapid growth in the economy. In 2005 and 2006, the Estonian economy was characterized by annual GDP growth of more than 10%, the driving force behind this has been the development of the real estate sector and increasing private consumption.

Table 1. Some economic indicators in Estonia in 2000 and 2004-2006

Economic indicator	2000	2004	2005	2006
Real growth of GDP (%)	10,8	8,1	10,5	11,4
Unemployment rate	13,6	9,7	7,9	5,9
Average monthly gross wages and salaries (EEK)	4907	7287	8073	9407
Consumer price index (%)	4,0	3,0	4,1	4,4
Mean annual population (thousands)	1370	1349	1346	1345
The number of operating enterprises	46853	60882	65362	71012

Source: Statistical Office of Estonia.

In 2006, the number of operating enterprises reached 71012. The share of government and local government owners has constantly decreased, while the share of foreign owners has increased (Statistical Yearbook of Estonia, 2007). The number of micro and small-sized (10-49 employees) enterprises forms 98% of the total number of enterprises. The proportion of large-scale enterprises (more than 250 employees) is only 0.25%.

From 1993 to 2006, the population in Estonia has decreased by 10% as a result of emigration and negative natural increase (Statistical Yearbook of Estonia, 2006). At the same time, by 2006, the number of employed had increased to 646,000. The primary sector (agriculture, hunting, forestry, fishing) constituted 5.3% of total employment. The secondary sector (mining, manufacturing, electricity, gas and water supply, construction) constituted 34% of total employment. The tertiary sector (wholesale and retail trade, services etc.) accounted for 60.7% of total employment. The number of employed by field of operation grew the most in the field of hotels and restaurants and real estate. The employment rate among elderly (in the age group of 55 to 64) was one of the highest in the European Union, being 56% (Giaccone, 2007).

The free movement of people within the European Union has caused an outflow of labor from the construction, services, transport and other sectors. EU enlargement in 2004 differs from previous enlargements because the income gap between the accession and EU countries was greater. For example, the hourly salary was 8 times lower in Estonia than in the old EU countries and purchasing power was only 42% of the purchasing power in the EU-15 (Svetlik and Alas, 2006). Therefore, there is a risk of a brain drain for the new EU countries. In parallel, the formation of new jobs has decreased the unemployment to a critical level and the increase in wages has been too fast. These developments create a special context for human resource management within enterprises. It is necessary to guarantee a productivity growth in order to ensure sustainable development. On the other hand, the limited selection opportunities among the labor force create better conditions for the employees compared to employers in the labor market, whose bargaining position has been most favorable in the last 15 years. In addition, disproportions between higher education and vocational training, social sciences and technology manifest themselves to the detriment of the latter (Vanhala et al., 2006). The existence of labor has become the most important factor in securing future growth.

1.3.1. Personnel/HR function. In Estonia a shift from personnel management to human resource management most likely started at the turn of the

century. The Estonian economy was on the increase, new institutions had been established and adapted to the requirements of the European Union.

The results of the second Cranet survey carried out in Estonia in 2004 showed that the field of human resource management witnessed a growth trend in its strategic nature (Estonian Cranet Report, 2004). The role of line managers within human resource management was growing. Companies invested greatly in training employees according to the needs of the business and in carefully selecting, recruiting and motivating managers and specialists.

Relying on the data from the research, the number of people employed in HR departments on average was a little less than one per 100 employees. This number is extremely low compared to the European context, where the number of employees in HR functions per 100 workers is 2,52 (Svetlik, 2006).

The beginning of the current decade in HR management is characterized by the active development of HR strategies and policy to support overall business strategies. The development of HR policies is not the just creation of specialists in this field – other employees in the organization have also been included in this process (Alas, 2005).

Organizations and HR managers started to develop HR policies and strategies in order to support their strategic objectives. The number of organizations, where mission statements and strategies are defined and formulated in writing has increased (Table 2). A notable shift has occurred in the definition of HR strategies, which testifies to the aspiration of organizations to integrate HR strategies into corporate strategies.

Table 2. Percentage of organizations with written strategies and mission statements

Organizations with	2000	2004
Written corporate strategy	62%	67%
Written HR strategy	26%	47%
Written mission statement	62%	72%

On average, in the business sector every second organization had a written HR strategy in 2004 (Fig. 1).

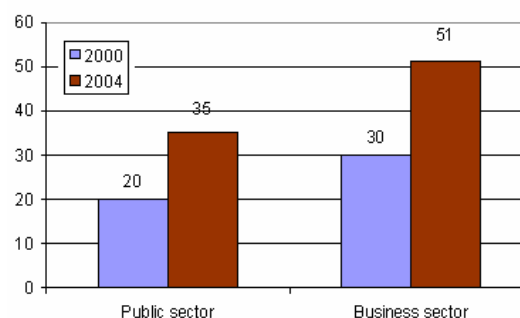


Fig. 1. Existence of written HR strategies in business and public sector organizations (% of organizations)

This change is prompted by the business needs of organizations, which motivate the HRM function to design activities in the interests of the efficient implementation of corporate strategies.

Another characteristic is the movement of HR managers into the company management, thereby participating in and contributing to discussions. A slight shift has occurred in the involvement of HR managers in the management board of the organizations (Fig. 2). The personnel manager involvement in the management of a company signals the recognition of him/her as a business partner and adviser to top managers.

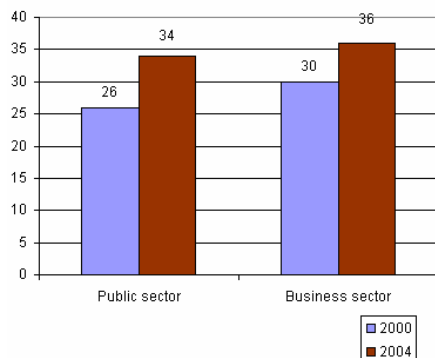


Fig. 2. Involvement of HR managers in the management board (% of organizations)

Survey results in 2004 demonstrate that 34% of HR managers in public sector organizations and 36% of HR managers in companies consider themselves part of the management board or the equivalent in the organization. In 2000, the involvement of HR managers in the general management of organizations was somewhat lower.

Figure 3 demonstrates that no significant change has occurred in the beginning of the new decade in the involvement of HR managers in terms of organizational strategy.

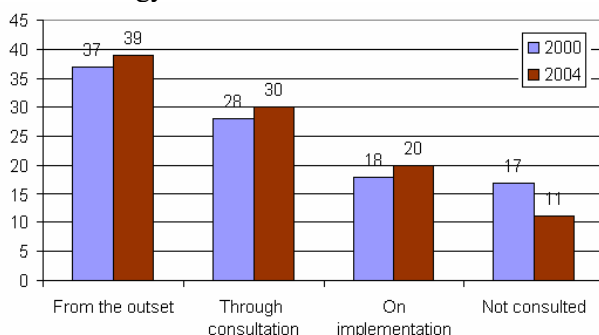


Fig. 3. Involvement of HR managers in organizational strategy (% of organizations)

Nearly 40% of HR managers claim that they have been involved in organizational strategy issues from the outset.

The role of line managers in the HR decision-making process indicates the growth in this tendency. Rather than HR managers, the ones who

implement HR strategies tend to be line managers (Alas, 2005).

The survey also studied the distribution of responsibility in making HR policy decisions. The results demonstrate where responsibility for different HRM aspects lies with line managers or with HR managers, and where they share the responsibilities (Table 3).

Table 3. Main responsibility in making HR policy decisions in Estonian organizations with 200 or more employees (% of organizations, 2004)

Area of responsibility	Line managers	Line managers and HR department	HR department and line managers	HR department
Recruitment	7	47	42	4
Pay and benefits	27	47	22	4
Training and development	2	35	56	7
Labor relations	11	37	39	13
Workforce expansion or reduction	29	56	13	2

Data presented in Table 3 involve organizations with 200 or more employees for the reason that these organizations can be expected to have an HR department.

Matters of pay and workforce expansion/reduction are issues where line managers have the first say and clearly carry the main responsibility. In principle, the distribution pattern of decision-making and responsibility between line managers and the HR function has changed little since 2000.

Conclusions

The changes in the institutional system have shaped the development of personnel/HR function in Estonian organizations in many ways and to a great extent. The importance of the human resource management function has greatly grown in the transition process due to the enormous changes in the society and around the organizations.

The position of HR managers in terms of business partnership has improved compared to the situation in the 1990s. There is a considerable step forward in formulating strategies, which is especially predominant in the growing number of organizations with a developed HR strategy. One may say that in both the private and public sectors, the number of HR managers that have been included in the management of the organization, has slightly increased but there is no significant change in the HR managers being included in the process of strategy development. HR

functions are more than ever being filled by way of outsourcing, which sets limits on the growth in the number of people working in the HR department.

The essence and level of HR management are more or less similar in the private and public sectors – the organizations in the public sector have caught up with the practices pursued by the private sector. Essential differences in the levels of HR management are larger between small and large enterprises rather than and between public and private organizations.

Relying on the description of the situation on the labor market, one of the most important issues in HR management today and in the future in Estonia is how to be attractive as an employer in order to find and retain people suited to business needs. The outflow of labor from certain sectors to countries offering better income and the resulting rapid growth in the levels of wages and salaries in Estonia are additional factors the human resource management practices have to cope with in Estonian organizations.

References

1. Alas, R. (1998). Human Resource Management. Handbook. Külim (in Estonian).
2. Alas, R. (2001). Interview with Milvi Tepp. Human Resource Management. Külim (in Estonian)
3. Alas, R. (2004). 'The Reasons for the Low Popularity of Trade Unions in Estonia', *Journal of Human Resource Management*, Vol. 1-2, pp. 14-28.
4. Alas, R., Svetlik, I., (2004). 'Estonia and Slovenia: building modern HRM using a dualist approach', in Brewster, C., Mayrhofer, W., Morley, M., (eds), *Human Resource Management in Europe: Evidence of Convergence?*, Elsevier.
5. Alas, R. (2005). Human Resource Management. Handbook. Fourth, edited version. Külim (in Estonian)
6. Clark, E., Soulsby, A. (1999). *Organisational Change in Post-Communist Europe: Management and transformation in the Czech Republic*, Routledge.
7. Claus, L. (2003). 'Similarities and differences in human resource management in the European Union', *Thunderbird International Business review*. Hoboken: Vol. 45, Iss. 6, p. 729
8. Eamets, R., Masso, J. (2004). 'Labour Market Flexibility and Employment Protection Regulation in the Baltic States', available at:
http://www.ettk.ee/upload/Uudiskiri/labour_market_flexibility.pdf
9. Estonia, available at: <http://www.gla.ac.uk/ecohse/estonia.pdf>
10. Estonian Association of SME's, available at: <http://www.evea.ee>
11. Estonian Chamber of Commerce and Industry, available at: <http://www.koda.ee/>
12. Estonian Cranet Report (2004) Management Department of Estonian Business School.
13. Estonian Employers' Confederation, available at: <http://www.ettk.ee/en>
14. Giaccone, Mario (2007) 'European Foundation for the Improvement of Living and Working Conditions', *Annual review of working conditions in the EU: 2006-2007*, Dublin, available at:
<http://www.eurofound.europa.eu/ewco/studies/tn0702028s/tn0702028s.htm>
15. Giardini, A., Kabst, R., Müller-Camen, M. (2005) 'HRM in the German Business System: A Review', *Management Review*. Mering: Vol. 16, Iss. 1.
16. Gregory, P. (1987). 'Assessing Baltic living Standards Using Objective and Subjective Measures: Evidence from the Soviet Interview Project', *Journal of Baltic Studies*, 18 (4): 367-374.
17. Kalda, V. (2001). 'Situation of HR Management in Estonian Organisations Based on HR Managers' Evaluations'. Master's Thesis. Tallinn Pedagogical University (in Estonian).
18. Kein, A., Tali, V. (1995). 'The Process of Ownership reform and Privatization', in Lugus, O., Hachey, G.A. (eds) *Transforming the Estonian Economy*, Tallinn, 140-168.
19. Leimann, J., Santalainen, T.J., Baliga, R.B. (2003). 'An Examination of the Dynamics of Transformation of Estonian State-Owned Enterprises toward a Free-Market Orientation', in Ennuste, Ü. And Wilder, L. (eds) *Essays in Estonia Transformation Economics*, Estonian Institute of Economics and Tallinn Technical University, 49-69.
20. Liuhto, K. (1999). 'The Organisational and Managerial Transformation in Turbulent Business Environments – Managers' views on the transition of their enterprise in some of the European former Soviet Republics in the 1990's', *Publications of the Turku School of Economics and Business Administration*. Series A-9.
21. Misiunas, R.J., Taagepera, R. (1983). *The Baltic States: Years of Dependence, 1940-1980*. London: Hurst and Berkeley: University of California Press.
22. Paauwe, J., Boselie, P. (2003). 'Challenging 'strategic HRM' and the relevance of the institutional setting', *Human Resource Management Journal*. London: Vol. 13, Iss. 3, 56-70.
23. Purju, A. (1998). 'Interrelationship between Privatization methods, Ownership Structure and economic Results – Evidences from Estonia', in *Proceedings of First International workshop on Transition and Enterprise Restructuring in Eastern Europe*, 22-22 August, 1998, Copenhagen Business School, Copenhagen.
24. Rajasalu, T. (1995). 'Macroeconomic Stabilization and Development', in Lugus, O., Hachey, G.A. (eds) *Transforming the Estonian Economy*, Tallinn, 16-51.

26. Smallbone, D, Venesaar, U. (2003). 'The State of Small and Medium-Sized Enterprises in Estonia on the Way to Accession', In Ennuste, Ü. And Wilder, L. (eds) *Essays in Estonia Transformation Economics*, Estonian Institute of Economics and Tallinn Technical University, 71-91.
27. Statistical Yearbook of Estonia (2001).. Statistical Office of Estonia, Tallinn.
28. Statistical Yearbook of Estonia (2006). Statistical Office of Estonia, Tallinn.
29. Statistical Yearbook of Estonia (2007). Statistical Office of Estonia, Tallinn.
30. Svetlik, I. (2006). 'Introduction: Cracks in the Success Story', in Ivan Svetlik & Branko Ilić (eds), *HRM's Contribution to Hard Work: A comparative analysis of human resource management*, Peter Lang
31. Svetlik, I., Alas, R. (2006) 'The European Union and HRM: impact on present and future members', in: H. H. Larsen, W. Mayrhofer (eds), *Managing Human Resources in Europe. A thematic approach*. Routledge.
32. Taagepera, R. (1993). *Estonia – Return to Independence*. Westview Press.
33. Taaler, J. (1995). 'Economic Reforms: The Main Stages, Programmes and Evaluations', in Lugus, O., Hachey, G. A. (eds) *Transforming the Estonian Economy*, Tallinn, 1-15.
34. Tepp, M. (2007). 'HR Profession in Estonia: Content and Contradictions', paper submitted to the 22nd Workshop on Strategic Human Resource Management, EIASM, Brussels, 19-20 April, 2007.
35. Vanhala, S. (1995). 'Human Resource Management in Finland', *Employee Relations*. Bradford, Vol. 17, No. 7, pp. 31-57.
36. Vanhala, S., Kaarelson, T., Alas, R. (2006). 'Converging human resource management. A comparison between Estonian and Finnish HRM'. *Baltic Journal of Management*. Volume 1, Number 1, pp. 82-101.
37. Zamascikov, S. (1987). 'Soviet Methods and Instrumentalities of Maintaining Control over the Balts', *Journal of Baltic Studies*, 18 (3): 221-234.